

**MINUTES**

**MONTANA SENATE  
56th LEGISLATURE - REGULAR SESSION**

**COMMITTEE ON TAXATION**

**Call to Order:** By **CHAIRMAN GERRY DEVLIN**, on March 11, 1999 at 8:00 A.M., in Room 413/415 Capitol.

**ROLL CALL**

**Members Present:**

Sen. Gerry Devlin, Chairman (R)  
Sen. Bob DePratu, Vice Chairman (R)  
Sen. John C. Bohlinger (R)  
Sen. Dorothy Eck (D)  
Sen. E. P. "Pete" Ekegren (R)  
Sen. Alvin Ellis Jr. (R)  
Sen. Bill Glaser (R)  
Sen. Barry "Spook" Stang (D)

**Members Excused:** Sen. Jon Ellingson (D)

**Members Absent:** None

**Staff Present:** Sandy Barnes, Committee Secretary  
Lee Heiman, Legislative Branch

**Please Note:** These are summary minutes. Testimony and discussion are paraphrased and condensed.

**Committee Business Summary:**

Hearing(s) & Date(s) Posted: HB 418, 3/8/1999; HB 479,  
3/8/1999; SB 522, 3/8/1999  
Executive Action: HB 418, HB 479

**HEARING ON HB 418**

**Sponsor:** REPRESENTATIVE ROBERT J. "BOB" PAVLOVICH, HD 37, BUTTE

**Proponents:** Hal Manson, American Legion  
Larry Longfellow, VFW  
Dan Antonietti, PDC, VFW

**Opponents:** None

**Opening Statement by Sponsor:**

**REP. BOB PAVLOVICH, HD 37, Butte**, said that last session **HB 381**, which exempted fraternal organizations from property tax and business personal property tax, was passed by the legislature. However, the American Legion, the VFW and the service clubs were inadvertently left out. **HB 418** simply exempts those organizations, also.

**Proponents' Testimony:**

**Hal Manson, American Legion of Montana**, said that the American Legion in Montana is barely surviving. He said American Legion works with youth through American Legion baseball, Boys State, the American Legion Oratorical Contests and other things. He said the taxes saved through this bill would allow American Legion in Helena to do more with Helena's youth.

**Larry Longfellow, Veterans of Foreign Wars**, said they support **HB 418**. He said they also work with youth in the Voice of Democracy, which is a scholarship program. He said this would be a financial benefit to the VFW.

**Dan Antonietti, Past Department Commander, Veterans of Foreign Wars**, said he also supports this bill. He said they feel that it was merely an oversight in **HB 381**, and this bill will correct that. He said all service organizations will benefit by this legislation.

**Opponents' Testimony:** None

**Questions from Committee Members and Responses:**

**SEN. ELLIS** asked **Mr. Longfellow** about the tax protests he had mentioned and his hope that this bill would take care of that issue. He asked him if he knew that this bill became effective January 1, 1999, and **Mr. Longfellow** said that the people in Great Falls understand that they have to pay the taxes through 1998.

**SEN. ELLIS** asked if these organizations had assumed that **HB 381** covered them also, and **Mr. Longfellow** said they were aware that they were not covered by that bill because it stipulated fraternal organizations.

**CHAIRMAN DEVLIN** asked if they had tried to amend **HB 381**, and **Mr. Longfellow** said that they had. He said it was **REP. HIBBARD'S** advice that everything was going well for **HB 381** as it was

written, and he recommended leaving it as it was and then coming in 1999 with an appropriate bill for veterans organizations.

**Closing by Sponsor:**

**REP. PAVLOVICH** closed by thanking the committee for hearing this bill. He urged passage of **HB 418**, and asked if **SEN. STANG** would carry it.

**HEARING ON SB 522**

**Sponsor:** SENATOR MACK COLE, SD 4, HYSHAM

**Proponents:** Karen Booker, Montana Society of CPAs

**Opponents:** None

**Opening Statement by Sponsor:**

**SEN. MACK COLE, SD 4, Hysham**, said that if a person converted from a regular IRA to a Roth IRA, they had the opportunity to pay their taxes on that over a four-year period. He said this was partially not true as far as the state was concerned, and **SB 522** merely allows married taxpayers to file separate Montana income tax returns to defer from the Montana gross income for four years the conversion amounts from a traditional IRA to a Roth IRA.

**Proponents' Testimony:**

**Karen Booker, Montana Society of CPAs**, testified in favor of **SB 522**. She said if this bill passes, it will make the state law comparable to the federal law for taxpayers no matter which status they like to file. It also will avoid a great deal of confusion and possible double taxation for the next three years. She distributed samples of actual tax returns which show the difference of what the taxpayer would pay if this bill does not pass and what they would pay if it does pass, **EXHIBIT (tas55a01)**. She pointed out that the difference is \$6,000.

**Opponents' Testimony:** None

**Questions from Committee Members and Responses:**

There were no questions from the committee, but **CHAIRMAN DEVLIN** said the committee had not yet received a Fiscal Note for this bill, and there may be questions when the Fiscal Note is received.

**Closing by Sponsor:**

**SEN. COLE** closed by urging support. He said a Fiscal Note should be received in a few days.

**HEARING ON HB 479**

**Sponsor:** REPRESENTATIVE ROYAL C. JOHNSON, HD 10, BILLINGS

**Proponents:** Kim Champney, Big Sky Airlines  
Jani McCall, City of Billings  
Charles Brooks, Yellowstone County Commissioners and  
Billings Area Chamber of Commerce

**Opponents:** None

**Opening Statement by Sponsor:**

**REP. ROYAL JOHNSON, HD 10, Billings,** said that **HB 479** was created to help Big Sky Airlines continue to be a viable entity in the state of Montana. He said in 1987 when Big Sky first started in business, they got a tax break through the legislature that is presently in current law, that when they purchase an airplane, they would only be charged 28% of the tax on that value in the first year. Then it went up 8% per year to 100%.

**REP. JOHNSON** said that Big Sky Airlines has had a rocky existence in Montana, and about a year-and-a-half ago they had a fleet of two Metroliners and a Cessna. At that time a new group of people put some real money into this company and they are now growing. This bill merely changes the description of the aircraft on which they get this tax break. In the last year-and-a-half they have acquired 15 reconditioned Metroliners, 7 of which are being used in Montana. He said Big Sky Airline's repair base is in Montana, and they have a good work force in this state. **HB 479** changes the current language of "new aircraft" to "newly acquired aircraft" and allows the same tax break.

**REP. JOHNSON** distributed a handout showing the property tax analysis, proposed tax law change for 1999, **EXHIBIT (tas55a02)**. He pointed the committee to the left-hand column which reflects the counties that will be affected by this change and how they would have been taxed in 1997, and what the tax would be in 1998 and 1999. He said if Big Sky Airlines survives as a viable company in Montana, Montana will benefit.

**Proponents' Testimony:**

**Kim Champney, President and Chief Executive Officer, Big Sky Transportation Company (Big Sky Airlines)**, said that last fall Big Sky celebrated its 20th anniversary of scheduled air service in Montana. He said Big Sky has gone through some good times and some bad times, including filing for bankruptcy in 1989 and subsequent successful reorganization in 1991. He said that since 1991, Big Sky has remained marginally profitable. Due to changes in air service of Horizon Airlines in late 1997, the decision was made by Big Sky to replace the intra-Montana services that had formerly been provided by Horizon. In order to do that, there was a need to upgrade its fleet. Big Sky acquired six larger Metroliners with new avionics equipment in the fall of 1997, and since that time Big Sky has tried to expand their services in Montana. In the fall of 1998, they acquired another Metroliner and have expanded the services in Montana and plan to continue to expand.

**Mr. Champney** said that with the acquisition of these new aircraft, their property tax bill increased \$175,000 from calendar year 1997 to calendar year 1998. He said that figure represents the entire net income for Fiscal Year 1998. What they are requesting here is an opportunity to reduce their tax burden through the use of legislation that is in place on new aircraft by redefining new aircraft as newly acquired aircraft.

**Mr. Champney** said that Big Sky has increased their work force from 75 employees to 143 employees throughout the state, approximately 121 of these in Billings. He said their Montana payroll has increased to around \$4 million for 1999. He said Big Sky would like to continue to grow and service Montana, and they would appreciate passage of this bill.

**Jani McCall, City of Billings**, said they are in support of this legislation. Big Sky Airlines has been a viable part of Billings for the past 20 years, with 120 employees in the Billings area. She said this is the only statewide air service available in Montana, and it is essential that this service be supported as a part of our economic environment.

**Charles Brooks, Yellowstone County Commissioners and the Billings Area Chamber of Commerce**, said that this legislature is working hard to enhance Montana's economy. He said this is a company that is in existence in Montana and this bill is created to help them continue business here. He recommended do pass.

**Opponents' Testimony: None**

**Questions from Committee Members and Responses:**

**CHAIRMAN DEVLIN** asked **Mr. Champney** what the difference in numbers of airplanes was in each of the tax years illustrated on the handout provided by **REP. JOHNSON**. **Mr. Champney** said that in 1997 there were three Metroliner aircraft and one Cessna 402 on the tax assessment. The 1998 tax was assessed on six Metro 3 aircraft, and in 1999 that tax is estimated based on the seven aircraft based in Montana at year end 1998.

**CHAIRMAN DEVLIN** then asked about the Texas airline and what the tax in Texas would be on those aircraft. **Mr. Champney** said that the property tax assessment in Texas is approximately one-half of the property tax assessed in Montana. **CHAIRMAN DEVLIN** asked if Big Sky had looked into the tax in North Dakota, and he wondered how that compared. **Mr. Champney** said he did not know what that would be, but he said they will be assessed on their one landing a day, five days a week there. He said he could get that information for the committee.

**SEN. ECK** asked **REP. JOHNSON** if this legislation was limited only to Big Sky, and he answered that it probably is. He referred to page 2, line 18, "for a scheduled airline company operating within this state whose allocation of valuation within this state, as determined under subsection (1) (b), is 50% or more, the department shall determine the valuation of a newly acquired aircraft and newly acquired equipment to support that aircraft at 28% of full and true valuation," so it depends on how much of their equipment they have domiciled in the state of Montana. He said he does not envision any other airline moving enough into the state so that they would be entitled to this tax credit, although it would be encouraged should that happen.

**SEN. ECK** said there is an individual in Bozeman who is looking at providing a service from Bozeman to Denver, and she wondered if he would qualify for this tax break, and **REP. JOHNSON** said he would.

**SEN. STANG** asked what "supporting equipment" covered, and **Mr. Champney** said he believed it was support equipment directly related to the aircraft, spare parts, ground equipment, and anything associated directly with the maintenance and upkeep of an airplane.

**SEN. STANG** asked if Big Sky had considered at the time of their expansion that all their aircraft would fall under "new aircraft," or was their business plan assuming that they would be paying the higher tax rate on those airplanes. **Mr. Champney** said they had assumed the full tax rate and did accrue exactly as

shown and are paying that. **SEN. STANG** then asked if their business plan assumed the higher rate of tax, and they felt they could afford that rate, why it is necessary to ask for this tax break. **Mr. Champney** said that Big Sky would like to expand further into different areas and more frequencies of flights. By nature of what they are doing, the new services that are being explored have more diminishing returns because the most viable services are already being offered. This tax break would help Big Sky to continue to fund the growth and invest their money in other areas.

**SEN. ELLIS** asked what percentage of Big Sky's clientele is business, and **Mr. Champney** said that they believe that presently approximately 75% of their clientele are business passengers.

**SEN. ELLIS** asked how many of the cities being serviced presently are totally dependent on Big Sky's services. **Mr. Champney** said that in every market that Big Sky serves, they have no air competition. He said that while cities like Helena, Missoula, Kalispell and Great Falls enjoy service to other markets, Big Sky is the only one providing air service to Billings. He said that cities in eastern Montana are completely reliant on Big Sky's air transportation.

**CHAIRMAN DEVLIN** asked what the taxable value is in those three years that are listed on Exhibit 2. **Mr. Champney** said that the cost basis of the equipment in 1998 was \$10,052,000, and he said he did not have the 1997 valuation. **CHAIRMAN DEVLIN** said that perhaps the committee could get that from the Department of Revenue.

**SEN. ELLIS** said **Mr. Champney** had made reference to the relationship between the gross profit of 1998 and the taxes paid, and he asked him to restate that information. He also asked how dependent their business plan was on growth of traffic. **Mr. Champney** said the increase in property tax assessment in 1997 to 1998 is approximately \$174,000. Big Sky's net income in the last fiscal year was \$174,000. As far as their business plan, it does rely on growth in traffic. He said they do not rely on increases in fares because that is one area where they have very little control. He said this is a very inelastic market, in that if they raise fares, their traffic decreases and they lose revenue. He said they are going to increase traffic, but it has to be done by providing better service and easier connections.

**SEN. EKEGREN** asked **Mr. Champney** if their investment was approximately \$10 million, and **Mr. Champney** said that was the assessment on the equipment. **SEN. EKEGREN** asked whether their profit of \$174,000 was enough to maintain a reasonable profit without this tax break, and **Mr. Champney** said that they do

believe they will remain profitable even without the tax break. However, they would like to be able to increase the benefits to their employees to attract more qualified people.

**SEN. STANG** asked the average hourly wage of their employees and what type of benefits are offered. **Mr. Champney** said that a large percentage of their employee base is pilots and mechanics, skilled crafts, and those types of individuals earn approximately \$35,000 to \$40,000 annually. The company currently provides a health insurance plan for the employees of approximately 25% to 50% of the premiums, depending on the family status. He said Big Sky also provides a 401K plan and does make a company contribution to that. He said it is the goal of Big Sky to be able to contribute more to these programs so that there is increased participation.

**CHAIRMAN DEVLIN** asked how their airfares are set, and **Mr. Champney** said that airfares have not been regulated since 1978. He said Big Sky sets their own fares. He said Big Sky has not had fare increases in a number of years. He said that the average fares for Big Sky are about 15% to 20% less than what Horizon was charging.

**Closing by Sponsor:**

**REP. JOHNSON** closed by saying that Big Sky is the only airline going east and west of any consequence, and he urged the committee to accept **HB 479**.

**CHAIRMAN DEVLIN** asked the Department of Revenue to provide the information on the taxable values in those three years, and **Mr. Walborn, Department of Revenue**, said they would be able to provide 1997 and 1998, but that 1999 is not available.

**EXECUTIVE ACTION ON HB 479**

**Motion:** **SEN. STANG MOVED THAT HB 479 BE CONCURRED IN.**

**Discussion:**

**SEN. STANG** said he was impressed with what Big Sky has done and their attitude toward their employees, and he would like to see them have the advantage of this tax break. **SEN. ECK** and **SEN. BOHLINGER** both agreed.

**SEN. ELLIS** said that if Montana is serious about growing the economy of the state, we have to have some kind of service like this. Without Big Sky, we do not have that.

**CHAIRMAN DEVLIN** said that this has been in effect previously and **SEN. DEPRATU** reminded the committee that the bill merely changes the wording from "new" to "newly acquired," and he agreed that the bill should be passed.

**Vote: Motion carried 8-0.**

**EXECUTIVE ACTION ON HB 418**

**Motion: SEN. BOHLINGER MOVED THAT HB 418 BE CONCURRED IN.**

**Discussion:**

**SEN. BOHLINGER** said that in the last session the legislature granted fraternal organizations the sort of tax break that is being asked for here, and it was felt to be worthwhile. He said he felt there was an oversight that veterans' organizations were not included, and this would remedy that.

**SEN. STANG** said he noticed two technical notes, and he wondered if they had been addressed. **Randy Wilke, Department of Revenue,** said that the second technical note has been adequately addressed, and with respect to the application deadline, it is something that could be worked through.

**Vote: Motion carried 8-0.**

**ADJOURNMENT**

Adjournment: 9:00 A.M.

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SEN. GERRY DEVLIN, Chairman

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SANDY BARNES, Secretary

GD/SB

**EXHIBIT (tas55aad)**